

Message Text

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ACTION ARA-14

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UNCLAS SECTION 1 OF 3 BRASILIA 6424

E.O. 11652: N/A
TAGS: EFIN, BR
SUBJECT: MAJOR ECONOMIC ISSUES AIRED AT MEETING OF BRAZILIAN
NATIONAL FEDERATION OF BANKERS

1. SUMMARY. AT THE MEETING OF THE NATIONAL FEDERATION OF BANKERS IN MANAUS, PRESIDENT GEISEL AND FINANCE MINISTER SIMONSEN CALLED ON BRAZIL'S BANKERS TO CONTRIBUTE TO THE PRIORITY OBJECTIVE OF BRINGING DOWN THE RATE OF INFLATION. IN A COORDINATED GOVERNMENT EFFORT TO INFLUENCE INFLATION-ARY EXPECTATIONS, THE BANK OF BRAZIL SUBSEQUENTLY ANNOUNCED CONSIDERATION OF A MODEST REDUCTION OF ITS INTERESTS RATES. THE PRESIDENT SUPPORTED THE ROLE OF PRIVATE FINANCIAL INSTITUTIONS IN BRAZIL'S DEVELOPMENT. SPOKESMEN FOR THE BANKERS IN TURN EXPRESSED CONFIDENCE IN GOB'S POLICIES. THE MEETING WAS ATTENDED BY MANY REPRESENTATIVES OF FOREIGN BANKS AS WELL AS BRAZILIAN OFFICIAL AND PRIVATE BANKERS. THE PRESIDENT AND MIN-FIN BOTH DEVOTED CONSIDERABLE ATTENTION TO BRAZIL'S INTERNATIONAL POSITION, STRESSING THE IMPROVEMENT IN THE BALANCE OF PAYMENTS AND SOME REDUCTION IN THE RATE OF INCREASE OF THE COUNTRY'S FOREIGN DEBT. BRAZIL'S
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EXECUTIVE DIRECTOR IN THE IMF, ALEXANDRE KAFKA, COMMENTED ON CURRENT INTERNATIONAL MONETARY AFFAIRS AND IMF MANAGING DIRECTOR JOHANNES WITTEVEEN DISCUSSED ECONOMIC CONDITIONS AND TRENDS IN THE MAJOR INDUSTRIALIZED COUNTRIES. END SUMMARY.

2. THE 12TH BIENNIAL CONGRESS OF THE NATIONAL

FEDERATION OF BANKERS (FENEBAN) ATTRACTED NEARLY 1,000 BRAZILIAN AND FOREIGN BANKERS AND GOVERNMENT OFFICIALS TO MANAUS FOR FOUR DAYS (JULY 25-28) OF DISCUSSIONS AND SPEECHES. THE SUBJECTS RANGED FROM WORKSHOPS ON TECHNICAL ASPECTS OF BRAZILIAN BANKING OPERATIONS TO MAJOR STATEMENTS ON THE DOMESTIC ECONOMY AND INTERNATIONAL MONETARY AFFAIRS, INCLUDING AN ADDRESS BY THE MANAGING DIRECTOR OF THE IMF. THE MAIN EMPHASIS OF THE GOB SPEAKERS WAS ON THE CURRENT EFFORT TO REDUCE THE RATE OF DOMESTIC INFLATION. PRESIDENT GEISEL AND THE FINANCE MINISTER BOTH COMMENTED ON THE COMPLEXITY OF THE CAUSES AND CURES OF INFLATION IN BRAZIL AND DEFENDED THE NECESSITY OF THE CURRENT POLICY OF "MONETARY AUSTERITY". IN THE KEYNOTE ADDRESS ON THE FIRST DAY OF THE MEETING, THE PRESIDENT REFERRED TO A "GRADUAL BUT SIGNIFICANT STRUGGLE AGAINST INFLATIONARY PRESSURE" AND SAID THAT "FINANCIAL INSTITUTIONS, ESPECIALLY COMMERCIAL BANKS....HAVE A MAJOR RESPONSIBILITY IN....THE PROCESS TO REVERSE TENDENCIES AND EXPECTATIONS." THE PRESIDENT FURTHER COMMENTED-AND THE MINFIN REPEATED HIS WORDS THE FOLLOWING DAY-THAT (1) THE REVERSAL OF INFLATIONARY EXPECTATIONS INVOLVES AMONG OTHER THINGS, "THE FIXING BY THE MARKET OF INTEREST RATES" AND (2) THAT "BANKERS OUGHT TO REMEMBER THE OLD SAYING THAT HE

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WHO CHARGES EXCESSIVE INTEREST RUNS THE RISK OF NOT BEING REPAYED THE PRINCIPAL."

3. THE PRESS AND THE ASSEMBLED BANKERS FOCUSED ALMOST EXCLUSIVELY ON THE ABOVE-CITED PORTIONS OF PRESIDENT GEISEL'S SPEECH, WHICH THEY INTERPERTED AS A CLEAR CALL FOR THE BANKS TO LOWER INTEREST RATES. (PRIME RATES CURRENTLY RANGE FROM 3.8 TO 4.2 PERCENT PER MONTH; I.E. 46-50 PERCENT PER ANNUM.) THIS INTERPRETATION WAS REINFORCED WHEN KARLOS RISCHBEITER, PRESIDENT OF THE BANK OF BRAZIL, ANNOUNDED IN THE COURSE OF HIS ADDRESS THAT THE BANK OF BRAZIL WOULD SOON CONSIDER REDUCING SOMEWHAT THE INTEREST RATES ON LOANS MADE WITH RESOURCES ACQUIRED FROM THE GOB. ALTHOUGH A FEW BANKERS ENDORSED THIS MOVE, MOST COMMENTS REFLECTED SURPRISE AND RESISTANCE TO FOLLOWING THE LEAD OF THE BANK OF BRAZIL. SIGNIFICANTLY, MINFIN SIMONSEN AND, LATER IN THE WEEK, CENTRAL BANK PRESIDENT PAULO LIRA, ACKNOWLEDGED THAT "INTERESTS RATES CANNOT ESCAPE THE LAW OF SUPPLY AND DEMAND."

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UNCLAS SECTION 2 OF 3 BRASILIA 6424

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THEY STRESSED THE NEED TO STRIVE FOR GREATER EFFICI-
ENCY AND REDUCED OPERATING COSTS AS THE MEANS TO
PERMIT marginally lower interest charges in the short-
run. AS REGARDS MORE SIGNIFICANT MODIFICATION OF
INTEREST RATES, THEY ESSENTIALLY AGREED WITH THE
BANKERS THAT REDUCTION COULD ONLY TAKE PLACE
SIMULTANEOUSLY WITH FURTHER DECELERATION OF INFLA-
TION. COMMENT: ABOUT ONE-THIRD OF BANK DEPOSITS
ARE AVAILABLE TO SUPPORT LENDING AT MARKET DETERMINED
RATES, WITH 35 PERCENT IN COMPULSORY RESERVES, 15 PER-
CENT IN AGRICULTURAL CREDIT, AND 12 PERCENT IN WORKING
CAPITAL FOR SMALL AND MEDIUM-SIZED FIRMS. END
COMMENT. PAULO LIRA STATED THAT THE MONETARY
AUTHORITIES WILL NOT REPEAT NOT ENGAGE IN OPEN MARKET
OPERATIONS TO BRING DOWN INTEREST RATES SINCE THAT
WOULD INVOLVE DEPARTURE FROM THE MONETARY PROGRAM AND
OBJECTIVES.

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4. IN ADDITION TO THE FOCUS ON PRIORITY POLICY OBJECTIVES, THE MANAUS MEETING PROVIDED AN OPPORTUNITY FOR DISCUSSION OF THE BANKING SECTOR PER SE. THE PRESIDENT OF FENEBAN, THEOPHILO DE AREZEDO SANTOS, MANAGED IN HIS OPENING REMARKS TO THE ASSEMBLED CONGRESS TO REFER TO SEVERAL AREAS OF CONCERN WHILE STILL ABUNDANTLY PRAISING THE GOB AND PRESIDENT GEISEL. PERHAPS MOST SIGNIFICANTLY HE COMMENTED THAT "WE (BANKERS) HAVE TO PERFECT OUR INSTITUTIONAL STRUCTURE IN THE SENSE OF GROWING ECONOMIC, SOCIAL AND POLITICAL DEMOCRACY." AREZEDO SANTOS ALSO ALLUDED CAUTIOUSLY TO THE ISSUES OF STATE VS. PRIVATE BANKS, BRAZILIAN VS. FOREIGN BANKS, AND LARGE VS. SMALL FINANCIAL INSTITUTIONS. THE PRESS NOTED THAT IMMEDIATELY FOLLOWING HIS SPEECH, AREZEDO SANTOS RECEIVED VERY ENTHUSIASTIC CONGRATULATIONS FROM THE MINISTER OF THE ARMY, GENERAL SILVIO FROTA. PRESIDENT GEISEL SUBSEQUENTLY STATED HIS SUPPORT FOR STRONG AND EXPANDING PRIVATE BANKS, RESERVING ONLY "PIONEERING DUTIES" TO GOVERNMENTAL BANKS AND DISMISSING "THE IDEA OF HAVING THE STATE IN CONTROL OF CREDIT." THE PRESIDENT ALSO EXPRESSED, IN AN INFORMAL EXCHANGE WITH BANKERS AND JOURNALISTS, HIS SUPPORT FOR SMALL BANKS. THIS POSITION WAS CONFIRMED BY CENTRAL BANK PRESIDENT PAULO LIRA WHO SAID THAT THE BANKING LAWS DO NOT DISCRIMINATE AGAINST SMALL BANKS. HE ADDED THAT MORE STUDY IS NEEDED OF PROPOSALS PUT FORTH TWO YEARS AGO BY SEVERAL LARGE BRAZILIAN BANKS TO PERMIT THE FORMATION OF FINANCIAL CONGLOMERATES BRINGING TOGETHER THE FUNCTIONS OF COMMERCIAL BANKS, INVESTMENT BANKS, BROKERAGE FIRMS, AND INSURANCE FIRMS UNDER UNIFIED MANAGEMENT. NONE OF THE OFFICIAL SPOKESMEN COMMENTED

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ON THE ROLE OF FOREIGN BANKS IN THE DOMESTIC ECONOMY; HOWEVER, AREZEDO SANTOS, IN SPEAKING TO THE PRESS, MAINTAINED THAT MOST BRAZILIAN BANKERS WANT TO PRESERVE THE ESSENTIALLY NATIONAL CHARACTER OF THE BANKING SECTOR. (COMMENT: THERE ARE PROBABLY 30-40 REPRESENTATIVE OFFICES OF FOREIGN BANKS IN BRAZIL BUT ONLY A FEW OF THE 50-60 PRIVATE BANKS ARE FOREIGN BANKS WITH FULL BRANCH OPERATIONS. THE GOB HAS NOT APPROVED NEW BANK OPERATIONS FOR A FOREIGN BANK SINCE 1966-67. IT IS REPORTEDLY CONSIDERING APPROVAL OF A NEW BANK OF BOSTON OFFICE BUT ONLY BECAUSE IT WOULD BE IN BRASILIA. END COMMENT.)

5. BRAZIL'S INTERNATIONAL POSITION AND OVERALL INTERNATIONAL ECONOMIC AND MONETARY AFFAIRS ALSO RECEIVED CONSIDERED ATTENTION IN MANAUS. PRESIDENT

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GEISEL DEVOTED ABOUT ONE HALF OF HIS REMARKS TO THE
NEED FOR REFORMULATING TRADITIONAL CONCEPTS OF BALANCE
OF PAYMENTS ADJUSTMENT OWING TO THE INCREASE IN
PETROLEUM PRICES AND SUBSEQUENT IMBALANCES AND WORLD
RECESSION. HE SAID THAT THE "MOST COOPERATIVE
SOLUTION" FOR THE PROBLEMS FACING THE NON-OPEC LDCS
WOULD BE FOR THE INDUSTRIALIZED NATIONS TO ADOPT
POLICIES OF INTERNAL EXPANSION AND ELIMINATION OF
PROTECTIONIST BARRIERS. HE SPOKE OF BRAZIL'S
EFFORTS TO REDUCE ITS DEPENDENCE ON FOREIGN SUPPLY
OF ENERGY AND CAPITAL GOODS AND TO STIMULATE MORE
RAPID GROWTH OF EXPORTS. HE CITED THE IMPROVED
BALANCE OF TRADE IN THE FIRST SEMESTER OF 1977 AND
CONCLUDED THAT "THIS YEAR WE WILL BE ABLE TO
KEEP THE INCREASE OF THE FOREIGN DEBT AT A LOWER
RATE THAN THAT OF THE GROWTH OF EXPORTS."

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6. BRAZIL'S EXECUTIVE DIRECTOR TO THE IMF, ALEXANDRE KAFKA, EXPRESSED HIS OPINION THAT BRAZIL'S ACCESS TO LONG-TERM FOREIGN CAPITAL REMAINS VERY GOOD. HE ATTRIBUTED THIS TO INTERNATIONAL CONFIDENCE IN THE GOB'S EFFORTS TO REDUCE INFLATION AND THE CURRENT ACCOUNT DEFICIT. HE ALSO MENTIONED THE CURRENT LEVEL OF INTERNATIONAL LIQUIDITY AS FAVORING BRAZIL'S OBTAINING LOANS WITH AVERAGE MATURITY OF 7-8 YEARS. KAFKA ALSO EXPRESSED OPTIMISM ON THE PROSPECTS FOR A NEW IMF CREDIT ARRANGEMENT. IN THE FIRST VISIT TO BRAZIL BY A IMF MANAGING DIRECTOR SINCE 1967, JOHANNES WITTEVEEN DELIVERED A MAJOR ADDRESS WHICH ANALYZED ECONOMIC CONDITIONS AND POLICIES IN THE INDUSTRIALIZED NATIONS AND THEIR IMPLICATIONS FOR LDCS. HE DID NOT COMMENT DIRECTLY ON BRAZIL BUT RATHER STRESSED THE NEED FOR ALL COUNTRIES TO MAKE EFFORTS TO REDUCE INFLATION AND TO REMOVE BARRIERS TO TRADE. HE EXPRESSED SATISFACTION WITH THE RESPONSE OF THE IMF AND THE INTERNATIONAL MONETARY SYSTEM IN GENERAL TO THE CHALLENGES OF THE LAST 3-4 YEARS. HE NOTED THE STRONG RECOVERY OF LDCS EXPORTS IN 1976-77 BUT ALSO NOTED THE MIXED PROSPECTS FOR GROWTH IN THE INDUSTRIAL WORLD IN THE COMING YEAR.

7. IN CONCLUSION, GOB SPEAKERS URGED THE BANKERS TO CONTRIBUTE TO BRAZIL'S FIGHT TO REDUCE INFLATION. THE IMF SPOKESMEN CONVEYED A FAVORABLE IMAGE OF BRAZIL ABROAD AND SPOKE WITH CAUTIONS OPTIMISM REGARDING THE INDUSTRIAL NATIONS' EFFORTS TO RESTORE ECONOMIC GROWTH IN A SETTING OF RELATIVELY STABLE PRICES. WHILE THE BANKERS DECLINED TO ENDORSE THE IDEA THAT THEY SHOULD "SHOW THE WAY" BY

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REDUCING INTEREST RATES, THEY STATED THEIR WILLINGNESS AND EVEN DESIRE TO BRING RATES DOWN AS INFLATION DECLINES, AND THE BANKERS EXPRESSED STRONG SUPPORT FOR THE GOB'S CURRENT ECONOMIC POLICIES. FOREIGN BANKERS - IN PARTICULAR THE BANK OF AMERICA AND SEVERAL EUROPEAN BANKS - WERE REPORTED AS SPECIFICALLY EXPRESSING CONFIDENCE IN THE GOB'S ECONOMIC POLICIES AND BRAZILIAN ECONOMIC PROSPECTS. COMMENT: THIS VIEW CONFORMS WITH RECENT COMMENTS BY SEVERAL FOREIGN BANKERS TO FINATT. END COMMENT. THE PRESIDENT OF UNIBANCO, ROBERTO KONDER BORNHAUSEN, EXPRESSED THE POSITION OF MANY PRIVATE BANKERS IN HIS CLOSING REMARKS. HE CALLED FOR LESS COMPETITION FROM OFFICIAL BANKS AND GREATER FREEDOM TO COMBINE

VARIOUS FINANCIAL INSTITUTIONS. HOWEVER, HE ALSO SAID THAT BANKERS WANT TO COOPERATE CLOSELY WITH THE GOB. IN IMPLICIT ENDORSEMENT OF THE GOB ECONOMIC LEADERSHIP, HE CALLED FOR CENTRALIZATION OF ECONOMIC AND FINANCIAL DECISION-MAKING UNDER A SINGLE MINISTRY OF THE ECONOMY. SUCH AN INSTITUTIONAL CHANGE IS NOT LIKELY DURING THE GEISEL ADMINISTRATION, BUT THE SUGGESTION IS FULLY CONSISTENT WITH THE CURRENT CONSOLIDATION OF ANTI-INFLATIONARY POLICIES IN THE HANDS OF FINANCE MINISTER SIMONSEN.
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